



FEDERAL ELECTION COMMISSION  
WASHINGTON, D C 20463

October 8, 2004

**MEMORANDUM**

TO: Lawrence H. Norton  
General Counsel

THROUGH: James A. Pehrkon *[Signature]*  
Staff Director

Robert J. Costa *[Signature]*  
Deputy Staff Director

FROM: Joseph F. Stoltz *[Signature]*  
Assistant Staff Director  
Audit Division

Wanda J. Thomas *[Signature]*  
Audit Manager

Rickida L. Skinner *[Signature]*  
Lead Auditor

SUBJECT: Democratic Executive Committee of Florida (A03-30) – Referral Matter

On September 9, 2004, the Commission approved the final audit report on the Democratic Executive Committee of Florida (DECF). The final audit report was released to the public on September 27, 2004 and includes a finding on Misstatement of Financial Activity that, based on the Materiality Thresholds, meets the criteria for referral to your office. Specifically, we are referring the misstatement of beginning cash on hand, receipts, and disbursements in calendar year 2001. In addition, the misstatement of disbursements in calendar year 2002 meets the criteria for referral to ADR. However, Audit Division policy dictates if one matter is referred to your office, other matters referable to ADR shall also be referred to your office.

The DECF filed amended reports that corrected the misstatement of financial activity. As a result of these actions, we recommend that this matter be sent to the Office of Alternate Dispute Resolution for consideration.

All workpapers and related documentation are available for review in the Audit Division. Should you have any questions regarding this matter, please contact Rickida Skinner or Wanda Thomas at 694-1200.

Attachment: FAR Finding 1. Misstatement of Financial Activity

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## **Finding 1. Misstatement of Financial Activity**

### **SUMMARY**

A comparison of the DECF's reported financial activity to its bank records revealed a misstatement of beginning cash on hand, receipts, and disbursements in calendar year 2001 and a misstatement of receipts and disbursements in 2002. The DECF complied with the Audit staff's recommendation by filing amended reports to correct the misstatement of financial activity.

### **LEGAL STANDARD**

**Contents of Reports.** Each report must disclose:

- The amount of cash on hand at the beginning and end of the reporting period;
- The total amount of receipts for the reporting period and for the calendar year; and
- The total amount of disbursements for the reporting period and for the calendar year.
- Certain transactions that require itemization on Schedule A or Schedule B.  
2 U.S.C. §434(b)(1), (2), (3), (4), and (5).

### **FACTS AND ANALYSIS**

The Audit staff reconciled the DECF's reported activity to its bank records and determined there was a misstatement of beginning cash on hand, receipts, and disbursements in calendar year 2001 and a misstatement of receipts and disbursements in 2002. The following charts detail the discrepancies between the DECF's reported activity and its bank records.

<b>2001 Activity</b>			
	<b>Reported</b>	<b>Bank Records</b>	<b>Discrepancy</b>
Beginning Cash Balance	\$182,169	\$467,895	\$285,726 Understated
Receipts	\$2,770,265	\$3,137,571	\$367,306 Understated
Disbursements	\$2,627,238	\$3,222,358	\$595,120 Understated
Ending Cash Balance	\$325,196	\$383,109	\$57,913 Understated

### **Explanation of Discrepancies**

#### **Beginning Cash Balance – 2001**

The understatement of beginning cash on hand in the amount of \$285,726 likely occurred because the DECF did not report the salary and payroll related expenses for some of the employees that were paid from the federal payroll account in the prior cycle in the same manner as described below.

### Receipts – 2001

The understatement of receipts was the result of the following:

- **Transfers Not Reported** – The DECF did not report on Schedules H3 (Transfers from the Non-federal Account) transfers from the non-federal account for salary and payroll related expenses for employees whose duties were considered to be 100% non-federal by the DECF. These expenses were paid from the allocation account. + \$347,610
- **In-Kind Contributions Not Reported**– The DECF did not report in-kind contributions from individuals on Schedules A (Itemized Receipts). + 3,000
- Unexplained difference + 16,696

Understatement of Receipts \$367,306

### Disbursements – 2001

The understatement of disbursements was the net result of the following:

- **Payroll Not Reported** – The DECF did not report salary and payroll related expenses for employees whose duties they considered to be 100% non-federal. Even though the DECF incorrectly treated these expenses as 100% non-federal for reporting purposes, the expenses were correctly paid on an allocated basis using the administrative expense ratio. The expenses should have been reported on Schedules H4. + \$503,279
- **Non-Payroll Disbursements Not Reported** + 92,189
- **In-Kind Contributions Not Reported**– The DECF did not report in-kind contributions on Schedules B (Itemized Disbursements). + 3,000
- **Reported Disbursements Not Traced to Bank**– There were no checks or debits in the DECF's bank accounts to support reported contribution refunds and a contribution to a candidate. - 3,447
- Unexplained difference + 99

Net Understatement of Disbursements \$595,120

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<b>2002 Activity</b>			
	<b>Reported</b>	<b>Bank Records</b>	<b>Discrepancy</b>
Opening Cash Balance	\$325,196	\$383,109	\$57,913 Understated
Receipts	\$5,138,812	\$5,391,648	\$252,836 Understated
Disbursements	\$5,424,830	\$5,803,087	\$378,257 Understated
Ending Cash Balance	\$24,209	(\$28,330)	(\$52,539) Overstated

### Explanation of Discrepancies

#### **Receipts – 2002**

The understatement of receipts was the result of the following:

- **Transfers Not Reported**– The DECF did not report on Schedules H3 (Transfers from the Non-federal Account) transfers from the non-federal account for salary and payroll related expenses for employees whose duties were considered to be 100% non-federal by the DECF. These expenses were paid from the allocation account. + \$242,613
- **Receipts Not Reported**– The DECF did not report a transfer from an affiliated committee. + 10,000
- Unexplained difference + 222

Understatement of Receipts \$252,836

#### **Disbursements – 2002**

The understatement of disbursements was the net result of the following:

- **Payroll Not Reported** – The DECF did not report salary and payroll related expenses for employees whose duties they considered to be 100% non-federal. Even though the DECF incorrectly treated these expenses as 100% non-federal for reporting purposes, the expenses were correctly paid on an allocated basis using the administrative expense ratio. The expenses should have been reported on Schedules H4. + \$424,195
- **Miscellaneous Reporting Errors** - - 45,444
- Unexplained difference - 494

Net Understatement of Disbursements \$378,257

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During the exit conference the Audit staff provided the DECF representatives with workpapers detailing the misstatements of financial activity.

**INTERIM AUDIT REPORT RECOMMENDATION AND COMMITTEE RESPONSE**

The Audit staff recommended the DECF file amended reports for the applicable reporting periods in calendar years 2001 and 2002 to correct the misstatement of financial activity. The DECF complied with the Audit staff's recommendation by submitting amended reports.

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